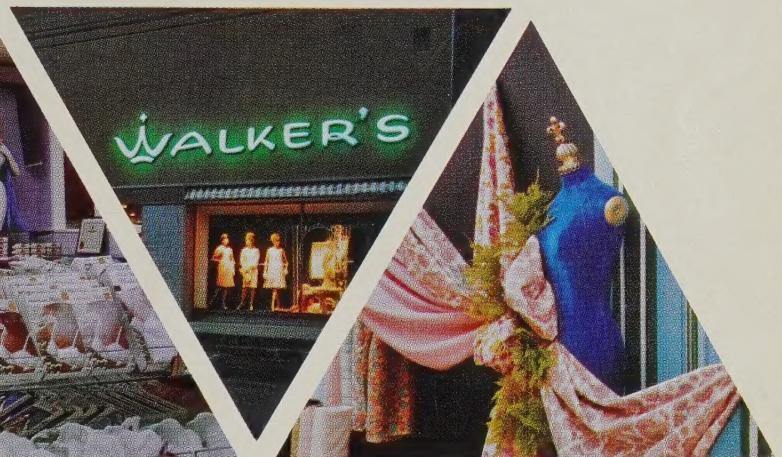
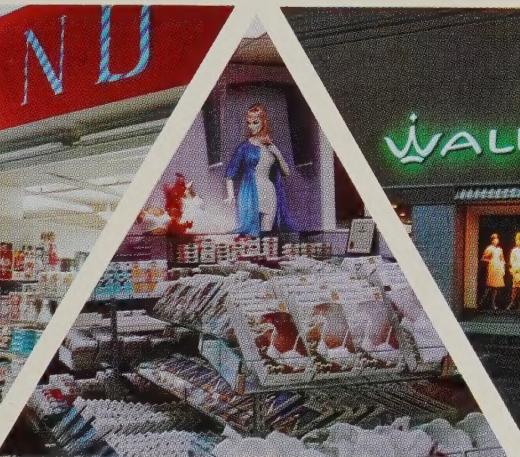


Gordon Mackay & Stores Limited

copy report



COVER

Within the triangles of the Canadian Centennial symbol are interior and exterior views of Walker's newest stores in the chain: Lindsay, North Bay and Brockville.

Cover Design: Cy Morris

Photographer: Michael G. Milne

GORDON MACKAY & STORES LIMITED

BOARD OF DIRECTORS

Aubrey W. Baillie
Roderick W. L. Laidlaw
W. G. Mackenzie Robinson, O.B.E., C.A.
G. Martyn Scott, C.A.
James W. Walker, O.B.E., Q.C.
William P. Walker, O.B.E.
William L. Wheler
David M. Woods
Peter L. Woods

OFFICERS

President—David M. Woods
Vice-President—James W. Walker, O.B.E., Q.C.
Secretary-Treasurer—G. Martyn Scott, C.A.

TRANSFER AGENTS

National Trust Company, Limited, Toronto

COUNSEL

McCarthy & McCarthy, Toronto

HEAD OFFICE

Gordon Mackay Road, Box 532, Toronto 15, Ontario

AUDITORS

Clarkson, Gordon & Co., Toronto

DIRECTORS' REPORT TO THE SHAREHOLDERS

The final phase of the recent major expansion was completed during the year under review and resulted in a sales volume of \$33,300,000, an increase of 17% over that of the previous year.

After providing for depreciation and income taxes, net income from operations amounted to \$72,800. This compares with \$332,700 for the year ended January 31st, 1966. Dividend income and profit on disposal of property increased the net income for the year to \$122,500.

The last four of the stores purchased from The T. Eaton Co. Limited, and located in Belleville, Brockville, Lindsay and North Bay, were opened during this period, after extensive modernization. A new store was opened in a London shopping mall and the size of the Port Colborne store was doubled. These made an impressive and colorful addition to the retail scene in each community. Three smaller stores were closed during the year and at the year-end your Company was operating 43 stores in 37 Ontario communities.

The reduction in profits from those of the previous year was due, to a substantial extent, to the losses incurred in the newly opened stores. These losses were greater than anticipated, in part because unforeseen construction problems delayed the opening of all but one store until the last half of the year. Despite this, and consistent with previous practice, all of the heavy preparatory and store opening costs, as well as a full twelve months' depreciation, were absorbed in the current year. Results in the remaining stores fell below plan, reflecting the overall problems resulting from this very substantial expansion, which added over 40% to our stores' total selling space.

Over the past two years the expansion program has involved a total expenditure of \$3,451,000 on fixed assets, of which \$2,477,000 was incurred during the period under review. The

necessary replacement of obsolete equipment and continuing minor modernization of existing stores resulted in a further capital outlay of \$750,000 during the two years with \$235,000 occurring in the year just past. The reduction of \$2,041,000 in working capital during the year to \$1,174,000 at January 31st, 1967, reflects such expenditures in the current year. Temporary financing of this program, amounting to \$4,251,000, has been provided under short term arrangements made with the Company's Bankers and with The Royal Trust Company, and this will become due later in 1967. Negotiations have been initiated looking towards the extension of the term of these borrowings until satisfactory longer term financing can be arranged. No decision on such extension has as yet been received.

Prospects for the future are encouraging. Economic conditions in most of the communities in which the Company operates stores continue to be good. With most of the problems of the major expansion behind us, the coming year will be one of consolidation. While no new units are planned, further volume gains will result as we are able to take full advantage of the potential presented by the recently opened stores. Planning for the coming year we believe to be on a conservative basis and is designed to re-establish the profit trend of earlier years.

Your Directors wish to record their appreciation of the loyal support of all staff during a particularly active year.

On behalf of the Board

D. M. Woods
President

Toronto
April 7th, 1967

GORDON MACK

(Incorporated under the L

CONSOLIDATED BALA

(with comparative f

Assets

Current assets:	1967	1966
Cash	\$ 152,157	\$ 56,794
Investment in listed stocks, at cost (which approximates market value)	182,413	182,413
Accounts receivable	3,934,049	3,101,141
Inventories of merchandise valued at the lower of cost and net realizable value	4,942,402	4,205,741
Prepaid expenses and sundry assets	180,613	200,336
Total current assets	<u>9,391,634</u>	<u>7,746,425</u>
Mortgage receivable, due April 15, 1968	<u>258,097</u>	<u>258,097</u>
5% Special refundable tax	<u>34,109</u>	
Properties and equipment (note 1):		
Buildings and equipment, at cost	9,609,220	7,317,634
Less accumulated depreciation	4,656,316	4,051,259
Land, at cost	<u>4,952,904</u>	<u>3,266,375</u>
Total properties and equipment	<u>823,395</u>	<u>586,295</u>
Total properties and equipment	<u>5,776,299</u>	<u>3,852,670</u>
	<u>\$15,460,139</u>	<u>\$11,857,192</u>

Notes to Consolidated Financial Statements January 31, 1967

1. Depreciation is written by the company at maximum rates normally permitted for income tax purposes (except for improvements on leaseholds over 15 years which are amortized more quickly than the maximum tax rates). The rates used are considered to reflect fairly the useful lives of the type of assets used by the company. A summary of depreciable assets and accumulated depreciation is as follows:

	Cost	Accumulated depreciation
Buildings owned	\$3,158,926	\$ 905,264
Improvements to leased buildings	892,097	339,279
Furniture and equipment	5,558,197	3,411,773
	<u>\$9,609,220</u>	<u>\$4,656,316</u>

2. Bank and other short term borrowings include the following special loans obtained to finance the recent expansion programme.

Source	Amount	Maturity Date
Chartered banks	\$3,051,000	August 15, 1967
The Royal Trust Company	1,200,000	November 30, 1967

The company is currently negotiating for an extension of the maturities of these loans. The company has agreed, while the liability to The Royal Trust Company remains outstanding, not to increase its rate of dividend payment, nor to pay dividends that would reduce shareholders' equity below \$6,000,000.

3. The company occupies its head office premises and 30 retail store locations on long-term leases for periods extending up to 23 years. Total rentals paid in the fiscal year ended January 31, 1967, on premises on long-term lease amounted to \$646,000.

4. Under the company's pension plans adopted in prior years, the company incurred obligations with respect to the past service of employees. These are being absorbed by annual payments of approximately \$29,000, as recommended by the company's consulting actuary. At January 31, 1967 the present value of the remaining unfunded obligation is approximately \$440,000.

5. During the year, under the company's Incentive Stock Option Plan, options were granted on 500 Class "B" shares at \$11.00 per share. At January 31, 1967 there were outstanding options on 12,400 shares at \$10.00, 500 shares at \$11.00 and 4,000 shares at \$12.50. These expire at various dates between 1970 and 1976.

STORES LIMITED

(Ontario) and its subsidiaries

STATEMENT OF FINANCIAL POSITION AS AT JANUARY 31, 1967

(January 31, 1966)

Liabilities and Shareholders' Equity

Current liabilities:

	<u>1967</u>	<u>1966</u>
Bank and other short term borrowings (note 2)	\$ 6,944,856	\$ 3,178,077
Owing for merchandise, wages, etc.	1,135,714	1,183,008
Taxes payable	137,307	170,249
 Total current liabilities	 8,217,877	 4,531,334
 Mortgage payable	 44,017	 48,256

Shareholders' equity:

Capital —

Authorized:

300,000 Class A shares without nominal or par value,
entitled to a fixed cumulative dividend of
fifty cents per share per annum in priority
to dividends on the Class B shares

300,000 Class B shares without nominal or par value
(note 5)

Issued:

201,600 Class A shares }	366,000	366,000
202,200 Class B shares }	2,674,494	2,674,494
Contributed surplus (unchanged during year)	4,157,751	4,237,108
 Earned surplus	 7,198,245	 7,277,602
 Total shareholders' equity (note 2)	 \$15,460,139	 \$11,857,192

On behalf of the Board:

D. M. WOODS, Director

J. W. WALKER, Director

Auditors' Report

To the Shareholders of Gordon Mackay & Stores Limited:

We have examined the consolidated balance sheet of Gordon Mackay & Stores Limited and its subsidiaries as at January 31, 1967 and the consolidated statements of income and earned surplus and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned financial statements present fairly the consolidated financial position of the companies as at January 31, 1967 and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 31, 1967.

Clarkson, Gordon & Co.
Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

Year Ended January 31, 1967

(with comparative figures for the year ended January 31, 1966)

	<u>1967</u>	<u>1966</u>
Sales (including sales of leased departments)	<u>\$33,299,930</u>	<u>\$28,394,039</u>
Income from operations before depreciation and income taxes	\$ 851,437	\$ 1,182,444
Depreciation	719,781	554,553
Income from operations before income taxes	131,656	627,891
Income taxes	58,900	295,150
Net income from operations	72,756	332,741
Add:		
Dividend income	28,079	13,953
Income tax recoveries from tax losses carried forward	32,000	
Profit on disposal of property	21,708	135,432
Net income for the year	122,543	514,126
Earned surplus at beginning of year	4,237,108	3,842,502
Reversal of amounts formerly written off investments	82,155	
	4,359,651	4,438,783
Dividends paid to shareholders:		
On Class A shares—50¢ per share	100,800	100,800
On Class B shares—50¢ per share	101,100	100,875
	201,900	201,675
Earned surplus at end of year	<u>\$ 4,157,751</u>	<u>\$ 4,237,108</u>

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

Year Ended January 31, 1967

(with comparative figures for the year ended January 31, 1966)

	<u>1967</u>	<u>1966</u>
Source of funds:		
Operations and investments —		
Net income from operations	\$ 72,756	\$ 332,741
Depreciation (a charge against operating income that does not require an outlay of funds in the year)	719,781	554,553
Dividend income	28,079	13,953
Income tax recoveries	32,000	
	<u>820,616</u>	<u>933,247</u>
Proceeds on sale of fixed assets	90,784	319,096
Issue of capital stock	6,000	
Revaluation of investments	82,155	
	<u>911,400</u>	<u>1,340,498</u>
Disposition of funds:		
Acquisition of fixed assets and leasehold improvements	2,712,486	1,506,305
Dividends paid	201,900	201,675
Mortgage principal repayment	4,239	57,398
Payment of 5% special refundable tax	34,109	
	<u>2,952,734</u>	<u>1,765,918</u>
Net reduction of working capital	<u>\$2,041,334</u>	<u>\$ 425,420</u>
Represented by:		
Increase in current liabilities —		
Bank and other short term borrowings	\$3,766,779	\$1,494,734
Other liabilities	(80,236)	388,678
	<u>3,686,543</u>	<u>1,883,412</u>
Less increase in current assets —		
Cash	95,363	7,754
Investments	82,155	
Accounts receivable	832,908	765,661
Inventories	736,661	593,928
Sundry assets	(19,723)	8,494
	<u>1,645,209</u>	<u>1,457,992</u>
Net reduction of working capital	<u>\$2,041,334</u>	<u>\$ 425,420</u>
Working capital, end of year	<u>\$1,173,757</u>	<u>\$3,215,091</u>

FIVE YEAR REVIEW

For Years Ended January 31st

	1967	1966	1965	1964	1963
Sales (including sales of leased departments)	\$33,299,930	\$28,394,039	\$25,211,603	\$23,416,232	\$20,749,593
Income from operations before depreciation and income taxes	851,437	1,182,444	1,011,464	1,172,538	588,293
Depreciation	719,781	554,553	447,279	424,809	406,434
Income taxes	58,900	295,150	281,000	375,550	81,832
Net income from operations	72,756	332,741	283,185	372,179	100,027
Net income for the year (a)	122,543	514,126	386,308	530,151	111,027
Dividends paid	201,900	201,675	201,600	201,600	201,600
Property and equipment additions	2,712,486	1,506,305	786,503	623,564	578,458
Rentals on leased premises	646,000	625,500	549,000	465,000	422,000
Year end position (000's)					
Accounts receivable	3,934	3,101	2,335	2,104	1,779
Inventories	4,942	4,206	3,612	3,322	2,815
Bank and other short term borrowings (b)	6,945	3,178	1,683	2,001	1,557
Working capital	1,174	3,215	3,641	2,747	2,503
Shareholders' equity	7,198	7,278	6,877	6,692	6,364
Net income from operations per Class A share	.36	1.65	1.40	1.85	.50
Fixed dividend paid Class A	.50	.50	.50	.50	.50
Net income from operations per Class B share	(.14)	1.15	.90	1.35	—
Dividend paid Class B	.50	.50	.50	.50	.50

Notes: (a) Including dividend income, profits on property disposals and income tax recoveries from losses carried forward from prior years.

(b) Includes special short term borrowing for expansion purposes:

1967 — 4,251,000

1966 — 975,000

Subsidiary Companies

Gordon Mackay and Company Limited
Smith's of Windsor Limited
C. H. Smith Holdings Limited
Walker Stores Limited

RETAIL STORES ARE OPERATED BY
SMITH'S OF WINDSOR LIMITED IN WINDSOR, ONTARIO
AND BY WALKER'S DIVISION OF GORDON MACKAY AND
COMPANY LIMITED IN:

Arnprior	Owen Sound
Barrie	Pembroke
Belleville	Peterborough
Bowmanville	Port Colborne
Brantford	Renfrew
Brockville	Ridgetown
Chatham	St. Catharines
Collingwood	St. Thomas
Dunnville	Sault Ste. Marie:
Fort William	Churchill Plaza
Galt	Queen Street
Guelph	Simcoe
Kitchener	Smiths Falls
Lindsay	Stratford
London	Tillsonburg
Midland	Toronto:
Newmarket	Cloverdale Mall
Niagara Falls	Dixie Plaza
North Bay	Dufferin Plaza
Orillia	Golden Mile Plaza
Oshawa	Rexdale Plaza
	Shopper's World
	Woodstock

AR23

(Gee)

INTERIM REPORT
for the
six months ended July 31, 1967

**GORDON MACKAY
&
STORES LIMITED**



GORDON MACKAY & STORES LIMITED

To The Shareholders

Attached is a consolidated statement of income and a consolidated statement of source and disposition of funds for the six months ended July 31st, 1967, with comparative figures for the corresponding period of 1966. These statements are unaudited and subject to year-end adjustment.

As this interim statement is being submitted for the first time, it should be noted that, historically, only 40% of the Company's business is done in the first half of the fiscal year with the result that this is usually a non-profit period. However, net results for the six months ended July 31st, 1967, show an improvement over those for the corresponding period of 1966 and indications are that improvement will continue throughout the remainder of the current fiscal year. In the annual report to the shareholders, issued in April, 1967, it was pointed out that this year was to be one of consolidation with the object of establishing a satisfactory profit trend. Your Directors feel that the six months' results show significant progress in this direction.

We continue to be faced with increasing competition in many localities and problems still exist in some of the recently opened stores. Action is being taken to resolve these problems and certain organizational changes have been effected which will strengthen the overall operation by providing improved direction and control.

Negotiations with the Company's bankers towards the extension of the special short-term borrowings of Gordon Mackay and Company Limited are progressing satisfactorily and, at the request of its bankers, the latter company will issue and pledge its debentures to secure its bank indebtedness, which indebtedness will be guaranteed by the Company.

Toronto, Ontario
September 22, 1967

D. M. Woods
President

The following statements are unaudited and subject to year-end adjustment.

CONSOLIDATED STATEMENT OF INCOME

	Six Months ended July 31 (In Thousands)	
	1967	1966
Sales (including sales of leased departments)	<u>\$14,232</u>	<u>\$13,361</u>
Loss for period before income taxes recoverable	431	651
Income taxes recoverable	213	328
Net Loss for period	<u>218</u>	<u>323</u>

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

	Six Months ended July 31 (In Thousands)	
	1967	1966
Source of Funds:		
Net loss for period	218	323
Add back depreciation (no cash outlay)	<u>310</u>	<u>330</u>
	<u>92</u>	<u>7</u>
Disposition of Funds:		
Acquisition of fixed assets and leasehold improvements	61	1,571
Dividends paid	101	101
Sundry	6	11
	<u>168</u>	<u>1,683</u>
Net reduction of Working Capital	<u>76</u>	<u>1,676</u>
Working Capital — end of July	<u>1,098</u>	<u>1,539</u>

**43 STORES
SERVING ONTARIO**

Arnprior
Barrie
Belleville
Bowmanville
Brantford
Brockville
Chatham
Collingwood
Dunnville
Fort William
Galt
Guelph
Kitchener
Lindsay
London
Midland
Newmarket
Niagara Falls
North Bay
Orillia
Oshawa
Owen Sound
Pembroke
Peterborough
Port Colborne
Renfrew
Ridgetown
St. Catharines
St. Thomas
Sault Ste. Marie Churchill Plaza
Sault Ste. Marie Queen Street
Simcoe
Smiths Falls
Stratford
Tillsonburg
Woodstock
Toronto
 Cloverdale
 Dixie
 Dufferin
 Golden Mile
 Rexdale
 Shoppers' World
Windsor

**GORDON MACKAY
&
STORES LIMITED**

**FIRST
HALF
REPORT
1967**